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RUEHAO/AMCONSUL CURACAO 1057  
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TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [VE](#)

SUBJECT: VENEZUELA LAUNCHES UNREALISTIC ETHANOL PLAN AGAIN

REF: A. CARACAS 1209

[1](#)B. CARACAS 3224

[1](#)C. CARACAS 1397

This message is sensitive but unclassified, please treat accordingly.

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SUMMARY  
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[1](#)1. (SBU) On October 26, PDVSA unveiled their Ethanol Agro-Energy Development Project, designed to produce over 10 million barrels of ethanol per year by 2012. The plan differs very little from previous PDVSA ethanol plans in scope, but incorporates new social development models. The ethanol will be produced from sugar cane, rice, and yucca, and will replace ethanol imports from Brazil that are used as a gasoline additive. Despite serious problems in the existing sugar industry (from sugar refinery issues to price controls to property destruction by squatters), the PDVSA plan seeks to double the amount of land used for sugar cane cultivation. The plan's "social projects" promote BRV-style business models (cooperatives, social production enterprises and endogenous development). PDVSA explicitly stated they would work together with the National Land Institute, paving the way for more takeovers of "idle" land holdings and "reform" in favor of agricultural cooperatives. PDVSA's plan, in short, is unrealistic. End Summary.

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THE PLAN  
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[1](#)2. (SBU) During an invitation-only seminar on October 26-27,

PDVSA unveiled its ambitious USD 1.3 billion Ethanol Agro-Energy Development Project. PDVSA's goal is to replace MTBE, a gasoline blending component the BRV began to use instead of leaded gasoline in May 2005, with domestically-produced ethanol. Currently, Venezuela imports ethanol from Brazil. The BRV has already signed memoranda of understanding with Brazil and Cuba for initial importation of equipment.

13. (SBU) Egly Ramirez, the Manager for PDVSA's Ethanol Project, said the plan calls for construction of 17 processing plants with a combined 10.2 million barrel per year capacity by 2012. The facilities will produce ethanol from sugar cane, rice and yucca. The plan calls for 320,700 hectares of new cultivation (230,000 hectares in sugar cane alone), and possible incorporation of other cereals and biomass into future production. The processing plants would be scattered around Venezuela's northern axis, and the pilot project -- set to begin operating in 2007 -- is in Lara state. The pilot project is adjacent to the Pio Tamayo Sugar Refinery, though subsequent plants will be separate from refineries. All ethanol plants will have a "social component" that includes promotion of social production enterprises (Ref A), cooperatives, endogenous development projects, and the creation of a "harmonized" rural environment.

14. (SBU) In July 2005, PDVSA announced a sugar cane-based ethanol plan called "Proyecto Etanol," that called for construction of 14 new sugar refineries, 300,000 hectares of new cultivation, and importation of initial equipment from

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Brazil. Six months later, in February 2006, PDVSA unveiled yet another ethanol plan called "Plan 474," which promised 25,000 daily barrels of ethanol production from 276,000 hectares of new sugar cane cultivation and construction of 15 sugar refineries. PDVSA stated they would begin importing 25,000 barrels per day from Brazil until they could supplant imports with domestic production. Today, Venezuela continues to use MTBE as a gasoline additive and is only incorporating 1,000 barrels a day of ethanol for this purpose in eastern Venezuela (Ref B). The total amount of MTBE used is unknown.

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CURRENT AGRICULTURAL WOES  
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15. (SBU) Even while the BRV dreams of new uses for sugar cane, over the last year Venezuela has suffered from repeated sugar shortages. Demand for sugar exceeds local production by nearly 300,000 metric tons. Only 110,000 hectares are currently used for sugar cane cultivation (compared to the 230,000 hectares PDVSA wants for new cultivation). Venezuela has 15 sugar refineries, four of which are partly or wholly owned by the state. Of these, Cumanacoa Refinery has significant efficiency problems; Ezequiel Zamora Refinery is embroiled in a massive corruption scandal; and Santa Elena Refinery was closed for months in 2006 due to a worker death and ensuing investigation. Venezuela was forced to import sugar from Brazil to make up for the deficit.

16. (SBU) Serious problems with sugar refineries, coupled with price controls that don't cover production costs, and over 4,000 hectares of sugar cane destroyed by squatters (to lower property value) in Yaracuy state alone, resulted in chaos for the Venezuelan sugar industry in 2006. During the unveiling of PDVSA's plan, an audience member asked how Venezuela could possibly produce ethanol given all the problems with sugar, to which Ramirez simply answered that PDVSA would assist the Ministry of Agriculture in the construction of three more sugar refineries.

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HOW CAN VENEZUELA BE COMPETITIVE?  
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17. (SBU) According to Ramirez, Venezuela will be as competitive in ethanol production as Brazil (which has production costs of USD 0.40 a gallon or lower). To achieve this, PDVSA will manage the entire production chain (prohibiting imported raw material or providers from outside their network), use automated and "technologically advanced" production methods, implement crop rotation like Brazil and Cuba, and provide "preferential financing." However, the president of the Venezuelan Federation of Agriculture (Fedeagro) said that PDVSA had approached individual farmers to set aside only 15-20 hectares of existing sugar cane for ethanol, wishing to distribute production among as many farmers as possible instead of increasing production at the most efficient existing operations.

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LAND REFORM IMPLICATIONS  
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18. (SBU) During his presentation, Egly Ramirez noted that PDVSA will cooperate with the National Land Institute (INTI) to "change the agricultural structure and transform the

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social fiber" of Venezuela. Another PDVSA employee working on the Ethanol Project mentioned separately that new cultivation and construction would use only government land. (Comment: Implicit in Ramirez' statement is a push for BRV-style land reform -- expropriations or takeovers of large "idle" land holdings to be turned over to rural peasant cooperatives (Ref C). End Comment).

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COMMENT  
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19. (SBU) It's very difficult to imagine how in five years, Venezuela will not only have a fully-operational ethanol industry, but one as profitable and efficient as Brazil's. Given Venezuela's inability to produce the sugar it needs for domestic consumption, it hard to believe that PDVSA can double the amount of cultivated land (for sugar cane) and fix all the problems with the sugar refineries by simply building new ones. PDVSA has clearly shown an inability to execute previous versions of its ethanol policy. At most, PDVSA will produce a modest amount of ethanol to offset imports of the product. As with many of PDVSA's grandiose plans, this one will likely fall far short of expectations. Merely changing the name of the ethanol plan is unlikely to produce better results. End Comment.  
BROWNFIELD